



COUNCILMEMBER CARL DEMaIO


FIFTH DISTRICT

CITY OF SAN DIEGO

MEMORANDUM

DATE: January 26, 2010

TO: Councilmember Tony Young

FROM: Councilmember Carl DeMaio 

RE: Items for Inclusion in the Structural Budget Deficit Elimination Plan

In response to your memorandum of January 6, 2010, I respectfully submit the following items as suggestions for eliminating the city's structural budget deficit:

Item 1: Budget Priorities Memo (December 7, 2009)

In December, I laid out a series of budget priorities for the FY 2010/2011 budget revision. These proposed actions are also applicable to resolving the structural budget deficit, and include utilizing structural reforms such as Managed Competition and the continued use of Performance Audits to identify available efficiencies.

In addition to a continued focus on pension and retiree health care reform, other suggested solutions in this memo included the exploration of redevelopment reprogramming options, expanded marketing partnerships to help generate additional on-going revenue, a continued focus on jobs-friendly policies and creation of a fiscal recovery reserve. (See Attachment 1)

Item 2: Next Steps in Pension Reform Memo (January 26, 2010)

Consistent with my previous emphasis on further pension and retiree health care reform, Councilmember Donna Frye and I have laid out several "next steps" to pursue in continuing to reform the city's pension liability.

These steps include continuing to explore all available legal options for pension reform, completing pension reform for new hires for all classifications, reviewing the city's compliance with the City Charter's "Substantially Equal" requirement, providing voters the opportunity to amend Charter Section 143.1, fully eliminating the accrual of pension credits on terminal leave, determining if DROP is "cost neutral" and negotiating on pension contribution offsets and employer contributions for SPSP. (Attachment 2)

Item 3: Docket Request for Exploration of Calculation of City's Annual Pension Contribution (January 25, 2010)

This memo elaborates on the need for the city to explore the apparent inequalities in employee and employee sharing of the normal cost of retirement. Furthermore, the city's annual pension contribution appears to include all costs related to experience and investment losses, potentially conflicting with the Charter. Councilmember Frye and I have called for an in-depth exploration of this issue, and a presentation of these findings by SDCERS to the full City Council by the end of March of this year. (See Attachment 3)

Item 4: Fiscal Analysis: Retirement Costs Consuming an Increasing Proportion of the General Fund (January 26, 2010)

This report (attached) details the projected relationship of the city's pension and retiree health care liabilities to the city's General Fund for the course of the Five Year Outlook. The forecasted relationship between these liabilities and the city's General Fund is daunting, and suggests that the city must reduce these liabilities if it is to recover financially. (See Attachment 4)

Item 5: Suggestions Provided at Budget and Finance Committee (January 6, 2010)

The following items memorialize the suggestions that I provided at the last Budget and Finance Committee meeting.

- **Comprehensive identification of all reforms already achieved via agreement or imposition with the city's bargaining units that remain outstanding and have yet to be actually implemented** (e.g. the variety of issues surrounding the SDCERS Board of administration following through on the elimination of the DROP program, the DROP annuity, etc.)
- **Identification of reforms that have been partially completed, as well as the savings available from completing and fully implementing the reforms** (e.g. the pension system for new hires does not fully apply to public safety members, representing approximately half of the city's workforce; SPSP and retirement contribution "pickup" represented approximately \$18.7 million in General Fund expenditures in the FY 2010 Adopted Budget.)
- **Legal Exploration of other reform options** (e.g. reducing pension debt through benefits reform, actuarial savings, pay down of accrued liabilities through other savings in compensation.¹)
- **Identification of needed data for decisions** (e.g. actuarial studies of the impact of a variety of available reform options for the city's retiree health care liability and DROP neutrality.)

¹ For further reference, see memo dated December 4, 2009 entitled "Legal Review of Possible Pension Reform Ideas."

- **Identification and action related to current legal ability to achieve reforms** (e.g. asking voters to edit section 143.1 of the City Charter to remove the ability of city employees to effectively veto properly negotiated and/or imposed reforms.)
- **Timing Issues and Necessary Action Sequencing for Reform** (e.g. establishing deadlines for necessary Council actions related to reforms requiring the city to meet and confer, or that require voter approval.)
- **Scoring of Entire Budget Deficit** (e.g. including the required level of funding for liabilities such as the full retiree health care payment and deferred maintenance in the city's officially reported budget deficit.)

I look forward to working with the Mayor and Council in translating these reform ideas into decisive action in order to comprehensively solve the city's financial problems. Given the severe nature of the city's budgetary difficulties, the implementation of key reforms in the months ahead will be critical.

CC: Mayor Jerry Sanders
City Councilmembers
Andrea Tevlin, IBA